

FSC-71-A		4/3/97		PARTIAL DISTRIBUTION								
SUBJECT: SALEM Tear Tape Product Program												
DISTRIBUTION:				11	x	21	x	51	x	62	x	
X	AVP	X	KAM	DM	12		22	x	54	x	63	x
X	RSM	X	AM	RM	13	x	23	x	56	x	66	x
X	RBM	X	AE	Sales Rep	16	x	26	x	58	x	67	x
X	ROM			Retail Rep	17	x	29	x			69	x
					18	x						

C-Gas is SALEM's most responsive outlet type and represents 42% of SALEM's total business. We are currently experiencing a volume and earnings shortfall vs. our 1997 planned objectives on SALEM. A recent assessment has determined that the key driver of SALEM's softness is that it is at a disadvantage to competition in C-Gas Outlets relative to display and discounted promoted volume (PV).

In order to adequately defend SALEM's volume, it is critical that we achieve an average PV rate of 33% nationally on discounted volume in C-Gas on grid for SALEM. It is also vital to defending SALEM's volume that discounted product is prominently displayed. Currently, discounted PV on SALEM is tracking at approximately 20% on a national basis.

The following plan is being developed to assist you at retail in an effort to reverse this trend:

#### Scope/Elements

- Tear tape product will be produced with a set value of 30¢ off per pack. It has been determined that this national marketplace value is sufficient to hold our current volume base.
- Tear tape product is to be utilized in C-Gas Outlets in divisions on grid for SALEM. This product would be utilized in lieu of current SALEM discounting.
- Product will be invoiced to direct accounts at standard price. SRs/KAMs/AMs will need to reimburse their retail accounts for the discount on the appropriate quantity of tear-tape product. **Funding for this discount will come from Base Accrual and Gap Defense Dollars, as is the case with any of our other discounting programs for full-price. It is critical that the appropriate system entries are made for adequate accounting of these funds. A special reporting designation will be communicated to you along with other specific program details under separate cover.**
- Tear tape product will be provided on the following styles: FF85, Lt85, FF100 and Lt100. Each region's allocation will contain equal quantities of each of these four styles. This allocation will be provided on a quarterly basis and should be utilized in equal monthly shipments to targeted retail outlets.
- A four-carton display will also be provided for your use. **It is imperative that all discounted product be displayed on this unit or another display platform you have available in retail outlets. Due to the SALEM graphics and discount amount on the riser card, your first priority should be to utilize the display which has been provided. A temporary display payment will also be provided. Details will be sent under separate cover. This payment should be utilized to establish/maintain ongoing display presence for SALEM for the balance of 1997.**
- Tear tape product will have promotional UPC codes on the packages only and be shipped in white cartons.
- Initial DTS is planned for 6/2/97 with monthly waves available through 11/97.
- Color photos of the display and product will be mailed to each ROU.

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## Planning

In order for us to assess planned quantities of tear tape product for each region, you will need to complete the steps outlined below:

- All AEs/KAMs/DMs/AMs/SRs with C-Gas stores in divisions on grid for SALEM must:
  - 1) Determine the quantity of SALEM product needed to be worked in each of these accounts on a monthly basis per the below formula. Planning for this program should be concurrent with your bottom-up plan associated with your price gap defense plan.

### EXAMPLE CALCULATION:

Weekly SALEM Family Carton Volume		# Weeks Per Region Quantity Grid		Total SALEM Cartons Needed
15	x	1.9 weeks	=	28.5 cartons or 7 cartons/style/month

**NOTE:** When completing the planning process, you should assume that there is a competitive trigger in C-Gas outlets on grid.

- 2) Determine which accounts can utilize tear tape product.

**NOTE:** Every effort should be made to utilize tear tape product in order to eliminate costs associated with stickering this product at direct account level. For retail accounts which cannot utilize tear tape product, an alternative method must be planned to implement and display the quantity of SALEM product determined in Step #1. The planned retail discount rate should be 30¢ per pack and reported accordingly to ensure proper accounting. Payment to the direct account for discount stickering should be made in accordance with your normal VAP payment schedule.

- 3) Determine display needs for each account.
- 4) Roll up tear tape product and display needs for direct accounts that service these stores and submit to your ROU.

**NOTE:** AEs should submit their needs to each of the affected regions.

- The ROU will in turn need to roll up tear tape product and display needs for the region and load these allocations into the attached spreadsheet. Spreadsheets due back to your Area Manager of Operations by May 1, 1997

**NOTE:** Due to the complexity of this program, this letter will be followed up by a conference call with your Area Manager of Operations and a member of Sales Planning.

Program Contacts:   Floyd Cook, extension #3466  
                          Jack Kerigan, extension #7405  
                          Your Area Manager of Operations

R. J. REYNOLDS TOBACCO COMPANY

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## SALEM Tear Tape Product Program - Initial Allocations

Region		Quarterly SKUs of 40 Offers	Quarterly 6M Cases	June Requirements		July Requirements		August Requirements		Total # of 40-Pack Displays Needed For 3-Month Period
				Revised Monthly SKUs of 40 Offers	Revised Monthly 6M Cases	Revised Monthly SKUs of 40 Offers	Revised Monthly 6M Cases	Revised Monthly SKUs of 40 Offers	Revised Monthly 6M Cases	
Boston	11XX	7,200	960							
New York	12XX	0	0							
Philadelphia	13XX	49,290	6,572							
Buffalo	16XX	16,290	2,172							
Pittsburgh	17XX	55,590	7,412							
Cincinnati	18XX	51,630	6,884							
Winston-Salem	21XX	70,770	9,436							
Atlanta	22XX	58,500	7,800							
Florida	23XX	41,370	5,516							
Dallas	26XX	52,860	7,048							
Richmond	29XX	71,010	9,468							
N. California	51XX	4,860	648							
S. California	54XX	3,270	436							
Seattle	56XX	4,140	552							
Houston	58XX	31,560	4,208							
Chicago	62XX	47,700	6,360							
Minneapolis	63XX	23,130	3,084							
Denver	66XX	25,830	3,444							
Detroit	67XX	52,470	6,996							
St. Louis	69XX	55,920	7,456							
<b>TOTAL U.S.</b>		<b>723,390</b>	<b>96,452</b>							

Allocations determined by divisions on grid for SALEM in each region and assume an average 33% PV rate nationally. Allocations are for a quarter and should be utilized in targeted outlets on a monthly basis.

1:30 → New #8 course

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